

Served: January 7, 1998



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 2nd day of January, 1998

Essential Air Service at

SEWARD, ALASKA

under 49 U.S.C. 41731, *et seq.*

Docket OST 97-2942

ORDER SELECTING CARRIER

Summary

By this order we are finalizing our tentative decision in Order 97-9-34, to reselect F. S. Air Service, Inc. to provide subsidized essential air service at Seward, Alaska. In addition, by this order we will establish a revised annual subsidy rate in the amount of \$73,498 for the two-year period beginning with the service date of this order.

Background

By Order 97-9-34, dated September 26, 1997, the Department tentatively reselected F. S. Air Service to provide essential air service in the Seward-Anchorage market, but invited other interested carriers to submit competing proposals. Under the tentative reselection, F. S. Air would operate ten nonstop round trips a week during the peak-season months, and three nonstop round trips a week during the off-peak period. All service would be provided with 8-seat Piper Navajo aircraft for an annual subsidy rate of \$77,981.

Era Aviation submitted a competing service proposal in response to the show-cause order. Era proposes to operate ten nonstop round trips a week in the peak period and three in the off-peak period. All service would be provided with 19-seat deHavilland Twin Otter aircraft for an annual subsidy rate of \$76,894.

Subsequent to the Era filing, F. S. Air Service amended its original proposal lowering its annual subsidy request to \$73,498.

Community Comments

We have received letters of support for both carriers. The Seward Chamber of Commerce favors the selection of Era while several Seward residents and business firms have

expressed support for F. S. Air. In addition, we have had phone conversations with elected officials of the City of Seward, and have received a letter from them. While the retention of regularly scheduled air service is of great importance to the civic officials, they have refrained from expressing a preference for either carrier, stating that it would be inappropriate to do so.

Carrier Selection

We have carefully reviewed the carriers' proposals, the community comments and the two applicant carriers' recent service histories, and have decided to reaffirm our tentative decision to reselect F. S. Air.

Each carrier is experienced and has an enduring record of providing reliable scheduled air service in Alaska, and each has proposed service that is fully consistent with the essential air service definition at Seward. While the projected subsidy need is almost the same for both carriers, F. S. Air's revised proposal, at \$73,498, is about \$3,000 a year lower. And while community spokespersons have endorsed the acceptability of both carriers, a common thread through most of their comments is that F. S. Air offers more than just the minimum level of air service, by, for example, providing fuel storage and dispensing services for charter flights, and by purchasing office and hangar facilities and arranging for ground amenities for its customers at Seward. Era's 19-seat Twin Otter aircraft would offer greater capacity, but would not improve upon the speed of F. S. Air's Navajo service. In short, except for the additional capacity that Era's proposal would provide, there is no comparative benefit to replacing F. S. Air, either in subsidy savings or in service improvements. Consequently, we will reselect F. S. Air to serve Seward for an additional two-year period at a subsidy rate of \$73,498 per year.

Carrier Fitness

49 U.S.C. 41738 requires that we find a carrier fit, willing, and able to provide service before we pay it compensation for essential air service. In that regard, F. S. Air has conducted Alaskan operations successfully for a number of years. The Federal Aviation Administration has advised us that the carrier continues to possess a favorable compliance disposition. The FAA knows of no reason why we should not find the carrier fit. In addition, F. S. Air remains subject to the Department's continuing fitness monitoring. Since no information has come to our attention that would lead us to question the fitness of F. S. Air, we conclude that the carrier remains fit to conduct the operations proposed here.

This order is issued under authority delegated in 49 CFR 1.56(i).

ACCORDINGLY,

1. The Department selects F. S. Air Service, Inc., to provide essential air service at Seward, Alaska, as described in Appendix C, beginning with the service date of this order through December 31, 1999;

2. The Department sets a final rate of compensation for F. S. Air Service, Inc., for the provision of essential air service at Seward, Alaska, at \$73,498 per year, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the ceilings per week of \$ 2,174.40 in the peak period and \$652.32 in the off-peak period and shall be determined by multiplying the number of subsidy eligible arrivals and departures operated during the month by \$108.72;

3. The Department finds F. S. Air Service, Inc. fit, willing, and able to operate as a certificated air carrier and capable of providing reliable essential air service at Seward, Alaska;

4. The Department directs F. S. Air Service to retain all books, records, and other source and summary documentation to support subsidy claims for payment and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and

5. The Department will serve a copy of this order on the civic officials of Seward, Alaska, the Governor of Alaska, the Alaska Department of Transportation and Public Facilities, Era Aviation, Inc., F. S. Air Service, Inc., and the carriers listed in Appendix D.

By:

CHARLES A. HUNNICUTT
Assistant Secretary for Aviation
and International Affairs

(SEAL)

EAS Map Will Be Supplied
On Request (202) 366-1055

Appendix B

F. S. Air Service, Inc. Subsidy Need Projection At Seward, Alaska

Aircraft type	Piper Navajo
Annual Block Hours	338
Annual Arriv/Depart	676

Revenue Forecast

Passenger	1,800 psgrs @ \$65.00	\$ 117,000
Freight	6,000 lbs @ \$0.35/lb	<u>2,100</u>
		\$ 119,100

Direct Costs

	Block Hour <u>Unit Costs</u>	
Flying Operations	\$ 79.11	\$ 26,739
Fuel and Oil	70.45	23,812
Maintenance	118.09	39,914
Depreciation	39.29	13,280
Insurance	50.02	<u>16,907</u>
Total Direct Costs		\$ 120,652

Indirect costs

\$ 62,775

Total Operating Costs

\$ 183,427

Return element

(At 5% of TOC)

\$ 9,171

Total Economic Cost

\$ 192,598

Annual Subsidy Need @ 100%
Completion

\$ 73,498

F. S. Air Service, Inc.
Summary of EAS to Be Provided

Effective Period:	From the service date of this order through December 31, 1999
Service:	Nonstop to Anchorage, Alaska
Minimum Frequency:	<u>Peak period</u> ¹ Ten nonstop round trips each week <u>Off-peak period</u> ² Three nonstop round trips each week
Aircraft Type:	Piper Navajo (nine passenger seats)
Timing of Flights:	Flights must be well-timed and well-spaced to ensure full compensation
Rate per Seward Arrival/Departure: ³	\$108.72
Weekly compensation Ceiling: ⁴	Peak ⁵ (Apr-Sept) \$2,174.40 Off-peak ⁶ (Oct-Mar) \$652.32

¹ Peak period on or about April 1st through September 30th.

² Off-peak period on or about October 1st through March 31st.

³ Annual Subsidy \$73,498 divided by 676 annual arrivals and departures at Seward.

⁴ Calendar weeks that fall into separate calendar months will be treated as part of the later month for the purpose of calculating both calendar weeks per month and the monthly compensation.

⁵ Rate per departure \$108.72 x 10 weekly SWD departures + 108.72 x 10 weekly SWD arrivals.

⁶ Rate per departure \$108.72 x 3 weekly SWD departures + 108.72 x 3 weekly SWD arrivals.

NOTE

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

Service List Will Be Supplied
On Request (202) 366-1055